

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 EUR-25 ISO-00 SS-15 L-03 INR-10 ABF-01

DRC-01 RSC-01 /079 W

----- 073840

R 110930Z OCT 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7406

INFO AMEMBASSY BONN

AMEMBASSY SEOUL

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STADIS////////////////////////////////////

E.O. 11652: N/A

TAGS: EIND, ETRD, EGEN, OTRA, AFSP

SUBJECT: GAO INQUIRY INTO STEEL VRA AND TEXTILE IMPORT PROGRAMS

REF: A. TOKYO 12969; B. STATE 196460; C. TOKYO 12564

SUMMARY: GAO AUDIT TEAM COMPLETED TOKYO AUDIT OF STEEL VRA, COTTON, LTA, AND WOOL AND MAN-MADE FIBER AGREEMENT ON OCTOBER 9. WHILE TEAM FOUND SOME INDICATIONS TEXTILE AGREEMENTS RESISTED BY JAPANESE INDUSTRY WHEN INSTITUTED AND DID INCREASE COST TO US CONSUMERS, IT CONCLUDED JAPANESE NOW NOT OVERLY CONCERNED WITH TEXTILE AGREEMENTS AND WILL PROBABLY PARTICIPATE IN MULTI-FIBER AGREEMENT NOW UNDER NEGOTIATION. STEEL VRA ALSO BELIEVED TO HAVE INITIALLY INCREASED COSTS TO US CONSUMERS BUT TEAM BELIEVES THAT IF VRA DISCONTINUED AT PRESENT NO INCREASE IN JAPANESE EXPORTS TO US OR DECREASE IN STEEL PRICE TO US CONSUMERS WOULD RESULT. TEAM SHOWN POST INDUSTRY FILES ON TEXTILES AND STEEL. TEAM DID NOT HAVE ACCESS TO VRA FILE. END SUMMARY.

1. GAO AUDITORS JOHN C. COMPETELLO AND FRANCIS GLYNN COMPLETED THEIR TOKYO AUDIT OF STEEL VRA, COTTON LTA
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AND WOOL AND MAN-MADE FIBERS AGREEMENT ON OCTOBER 9 AND

DEPARTED FOR SEOUL ON OCTOBER 10. FOLLOWING CONCLUSIONS REACHED BY TEAM WERE PRESENTED IN MEETING WITH ECONCOM/MIN AND ECON/COUNS ON OCTOBER 9.

2. GAO TEAM FOUND EMBASSY INVOLVEMENT IN TEXTILE NEGOTIATIONS AND MONITORING OF TEXTILE AGREEMENTS NEGLIGIBLE. TEAM FOUND THAT GOJ HAS ABOUT 50 PEOPLE INVOLVED IN MONITORING TEXTILE AGREEMENTS AND WILL PROJECT COST FOR THS ACTIVITY AT AROUND \$400,000 PLUS ADMINISTRATIVE COST INCURRED BY VARIOUS TEXTILE ASSOCIATIONS INVOLVED.

3. GAO TEAM FOUND JAPANESE ATTITUDES TOWARD TEXTILE AGREEMENTS HAD CHANGED FROM RESISTANCE AT TIME OF NEGOTIATIONS TO EITHER LACK OF CONCERN OR OUTRIGHT APPROVAL OF AGREEMENTS. TEAM BELIEVES JAPANESE INDUSTRY MAY WELL VIEW AGREEMENTS AS SOMETHING IT MAY NEED IN FUTURE. FOR THIS REASON, TEAM FORMED OPINION THAT JAPANESE NOW APPROACHING MULTI-FIBER AGREEMENT NEGOTIATIONS IN GENEVA IN POSITIVE FRAME OF MIND.

4. TEAM CONFIRMED WITH JAPANESE SOURCES THAT JAPAN WILL FILL ITS QUOTA FOR ONLY ONE OR TWO ITEMS UNDER LTA AND ONLY FIVE OR SIX ITEMS UNDER MAN-MADE AGREEMENT. TEAM THUS DOES NOT BELIEVE REMOVAL OF ALL AGREEMENTS AT THIS TIME WOULD LEAD TO SIGNIFICANT INCREASE IN JAPANESE TEXTILE EXPORTS TO US OR IN PRICE BENEFIT FOR US CONSUMER. TEAM AWARE THAT PRESENT CONDITIONS COULD CHANGE, MAKING TEXTILE AGREEMENTS MORE MEANINGFUL.

5. IN DISCUSSION WITH US IMPORTER OF JAPANESE TEXTILES (REPORTED REF A), TEAM TOLD COST OF JAPANESE PRODUCTS, IN FEW AREAS WHERE QUOTAS BEING FILLED, ARE HIGHER FOR US IMPORTERS THAN IMPORTERS FROM OTHER COUNTRIES. TEAM WILL PROJECT 10 PERCENT OF TOTAL VALUE OF TEXTILE ITEMS IN FULLY-USED CATEGORIES AS ADDED COST TO US CONSUMER. EMBASSY OFFICERS POINTED OUT THAT EVEN IF IMPORTER PURCHASED AT LOWER PRICE IN JAPAN, HE WOULD SELL AT MARKET PRICE IN US. THUS, ADDED COST DUE TO JAPANESE MARKUP LIMITED OFFICIAL USE

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FOR QUOTA NOT NECESSARILY RELATED TO COST TO US CONSUMER. AUDITORS AGREED SUCH AN ARGUMENT COULD BE MADE, BUT STATED BELIEF THAT QUOTA COST TO CONSUMERS IN US DID EXIST AND WAS PROBABLY FAIRLY ESTIMATED IN MANNER SUGGESTED EARLIER.

6. TEAM WISHED DISCUSS FURTHER OTHER MEANS WHICH COULD BE USED TO EFFECTIVELY SOLVE TEXTILE PROBLEM.

SOLUTIONS RANGING FROM HIGHER TARIFFS, TO GREATER INVESTMENT IN MODERNIZATION AND SPECIALIZATION BY US INDUSTRY OR GOVERNMENT WERE RAISED. EMBASSY OFFICERS AGAIN POINTED OUT THAT WHILE THEY AWARE OF OTHER APPROACHES TO PROBLEM, THIS POINT BEST ADDRESSED AND ASSESSED IN WASHINGTON, WHERE TOTAL PICTURE AVAILABLE.

7. TEAM FOUND STEEL VRA MUCH LESS COMPLEX. THEY BELIEVE THEY HAVE DEVELOPED A COMPLETE PICTURE OF AGREEMENT DESPITE FACT THAT JAPAN STEEL EXPORTERS ASSOCIATION (JSEA) HAD POLITELY AND WITH GREAT REGRET DECLINED TO MEET WITH THEM. AS WITH TEXTILES, TEAM FOUND EMBASSY INVOLVEMENT IN STEEL VRA TO HAVE BEEN MINIMAL. THEY ALSO FOUND LITTLE INTEREST AND NO INVOLVEMENT ON POINT OF GOJ. TEAM HAD NO ESTIMATES ON COST TO JSEA OF ADMINISTERING STEEL VRA.

8. TEAM ESTIMATES THAT 15 PERCENT OF TOTAL COST OF JAPANESE STEEL SHIPPED TO US FOLLOWING CONCLUSION OF STEEL VRA REPRESENTS ADDED COST TO US CONSUMER AS RESULT THIS AGREEMENT. BASIS FOR THIS IS STATEMENTS BY TRADING FIRM REPRESENTATIVES THAT BEFORE STEEL VRA JAPANESE STEEL SOLD IN US AT 25 PERCENT BELOW US STEEL-MAKERS PRICE. FOLLOWING CONCLUSION OF VRA JAPANESE STEELMAKERS INCREASED PRICE FOR US EXPORTS TO A POINT ONLY 10 PERCENT BELOW US STEELMAKERS PRICE. THIS SITUATION EXISTED UNTIL 1972 IN VIEW OF TEAM. EMBASSY OFFICER DISPUTED VALIDITY OF STRAIGHTLINE PROJECTION, NOTING THAT RISING DEMAND IN JAPAN COUPLED WITH INCREASED RAW MATERIAL AND WAGE COSTS HAD ERODED JAPANESE PRICE EDGE OVER ENTIRE PERIOD OF STEEL VRA.

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----- 073850

R 110930Z OCT 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7407

INFO AMEMBASSY BONN

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TEAM AGREED 15 PERCENT FOR FULL PERIOD WAS AT BEST
ROUGH ESTIMATE, BUT IT WILL PROBABLY USE THIS METHOD
TO REPORT COST TO US CONSUMER OF VRA.

9. TEAM AWARE THAT JAPANESE STEEL NOW SELLING IN US
AT HIGHER PRICE THAN US STEEL. THEY ATTRIBUTE THIS
TO US PRICE CONTROLS AND ADMIT THEY NOT ABLE JUDGE
WHAT WOULD BE PRICE RELATIONSHIPS IF PRICE CONTROLS
LIFTED. TEAM ALSO STATED BELIEF THAT, UNDER CURRENT
MARKET CONDITIONS, LIFTING OF VRA WOULD NOT INCREASE
JAPANESE STEEL EXPORTS TO US OR REDUCE PRICE TO US CON-
SUMER.

10 DURING COURSE OF VISIT TEAM WAS SHOWN EMBASSY
INDUSTRY FILES ON STEEL AND TEXTILES (REF C). THEY ASKED
ABOUT FILE ON STEEL VRA AND EMBASSY OFFICER UNDERTOOK
SEE WHAT AVAILABLE. REQUEST NOT REPEATED AND EMBASSY
DID NOT PROVIDE VRA FILE. BELIEVE THIS PROCEDURE FOLLOWS
GUIDELINES REF B WITHOUT NEED MAKE OUTRIGHT REFUSAL
TO SHOW TEAM VRA FILE.

11. TEAM LEADER COMPETELLO SAID GAO MIGHT BE MAKING
SECOND VISIT, BUT THIS UNCERTAIN AT PRESENT TIME. HE
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DID NOT FULLY DEVELOP REASON FOR SECOND VISIT, BUT DID
SAY ONE SUBJECT OF INTEREST MIGHT BE JAPANESE INVESTMENT
IN STEEL AND TEXTILE INDUSTRIES IN THIRD COUNTRIES.
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